

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 XMB-02 PA-01 PRS-01 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 /106 W

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R 231357Z OCT 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3217

INFO AMEMBASSY BONN

AMEMBASSY MADRID

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: ENRG, AG, SP

SUBJECT: LNG CONTRACT CONCLUDED WITH SPAIN

REF: ALGIERS 2010

1. SUMMARY: ALGERIA HAS SIGNED CONTRACT WITH SPAIN FOR SUPPLY OF SIGNIFICANT QUANTITY OF LNG. CONTRACT MAY AFFECT LONG-TERM IMPORT PLANS OF US FIRM EASCOGAS. END SUMMARY.

2. OFFICIAL PRESS ANNOUNCED OCT. 22 THAT CONTRACT HAD BEEN SIGNED BETWEEN SONATRACH AND ENAGAS OF SPAIN FOR SALE OF ALGERIAN LNG. TOTAL SALE QUANTITY IS REPORTEDLY 94 BILLION CUBIC METERS WITH DELIVERIES TO BEGIN NEXT YEAR (1976) AT ANNUAL RATE WHICH WILL EVENTUALLY INCREASE TO 4.5 BILLION CUBIC METERS PER YEAR. ACCORDING TO PRESS REPORT, GAS WILL BE PRODUCED AT SKIKDA LNG FACILITIES.

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3. FORMAL SIGNATURE OF CONTRACT BETWEEN TWO PARTIES FOLLOWS INFORMAL ACCORD REACHED IN AUGUST. AFTER BOTH GOVERNMENTS RATIFIED THIS ACCORD AND SPAIN AGREED TO PROVIDE \$450 MILLION IN LONG-TERM FINANCING, FORMAL CONTRACT WAS SIGNED ON OCT. 20, 1975. CONTRACT REPLACES PREVIOUS AGREEMENTS BETWEEN ENAGAS AND SONATRACH WHICH, ACCORDING TO PRESS, HAD TO BE REVISED TO CONFORM TO NEW WORLD ENERGY SITUATION AND "NEW ALGERIAN GAS SALES POLICY."

4. THE PRICE OF THE GAS WILL BE INDEXED BASED ON NATURAL GAS SUBSTITUTES AND THERE WILL BE A MINIMUM GUARANTEED PRICE. TRANSPORT OF THE GAS TO SPAIN, ACCORDING TO PRESS, WILL BE BY LNG TANKERS BELONGING TO THE ALGERIAN NATIONAL NAVIGATION COMPANY.

5. WITH REGARD TO THE FINANCING, \$150 MILLION OF UNRESTRICTED CREDITS WILL BE EXTENDED BY SPANISH BANKS AT INTEREST RATE OF 7 PERCENT PER YEAR. SPANISH PUBLIC ENTITIES WILL EXTEND REMAINING \$300 MILLION IN CREDITS TIED TO PURCHASE OF SPANISH GOODS AND SERVICES WITH INTEREST RATE OF ABOUT 5 PERCENT PER YEAR. BOTH LOANS WILL REPORTEDLY HAVE GRACE PERIOD OF 4 YEARS FOLLOWED BY REPAYMENT PERIOD OF 10 YEARS.

6. PRESS REPORTS THAT SONATRACH/ENAGAS CONTRACT CONSTITUTES FIRST AGREEMENT TO BECOME FULLY EFFECTIVE UNDER THE "NEW ALGERIAN GAS POLICY." TWO OTHER CONTRACTS ARE REPORTEDLY ON THE POINT OF BEING FINALIZED. ON THE OTHER HAND, PRESS REPORT NOTES, THE NEGOTIATIONS WITH THE EUROPEAN GAS CONSORTIUM, SAGAPE, HAVE BEEN "INTERRUPTED" AND THE NEGOTIATIONS WITH GAZ DE FRANCE "SEEM TO HAVE BEEN SQUASHED" DESPITE OPTIMISTIC DECLARATIONS BY FRENCH OFFICIALS.

7. COMMENT: SIGNATURE OF CONTRACT WITH SPAIN CONFIRMS THAT OUTPUT OF SKIKDA FACILITIES WILL GO IN LARGE PART TO SPAIN, AND NOT TO US EASCOGAS AS HAD ORIGINALLY BEEN ENVISAGED. (SEE REFTEL) THIS CONCLUSION BASED ON FACT THAT PRESENT OUTPUT FROM SKIKDA LNG FACILITIES IS LIMITED OFFICIAL USE

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FULLY COMMITTED, AND THAT PRESENTLY PLANNED INCREASES IN OUTPUT AT SKIKDA (ONE TRAIN NEARING COMPLETION AND TWO IN PLANNING STAGE) WILL TOTAL 46 MILLION CUBIC METERS PER YEAR OR APPROXIMATELY SIZE OF SPANISH CONTRACT. POSSIBILITY STILL EXISTS (AS REPORTED IN THE PETROLEUM INTELLIGENCE WEEKLY OF OCT. 13) THAT EASCOGAS MAY BE ABLE TO OBTAIN SHORT-TERM SUPPLIES OF LNG FROM SKIKDA. SUCH A CONTRACT COULD BE ALONG

LINES OF 18-MONTH DISTRIGAS LNG CONTRACT (ALSO FROM SKIKDA) REPORTEDLY DUE TO TAKE EFFECT IN JULY 1976. HOWEVER, ANY LONG-TERM PLANS EASCOGAS MAY HAVE TO IMPORT ALGERIAN LNG WILL HAVE TO WAIT FOR NEW LNG FACILITY YET TO BE PLANNED, FINANCED, AND BUILT.

8. WE INTERPRET NEW ALGERIAN GAS POLICY REFERRED TO ABOVE AS MEANING LNG AGREEMENTS LINKED TO PRICE OF NO. 2 AND NO. 6 OIL IN PURCHASING COUNTRY MARKET, BASE PRICE IN RANGE OF \$1.30 ALSO SEEMS TO BE INCLUDED IN THE DEFINITION. TWO CONTRACTS "ON POINT OF BEING FINALIZED" REFERRED TO ABOVE ARE APPARENTLY PANHANDE AND DISTRIGAS CONTRACTS.  
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